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## **PSC APPROVES ENVIRONMENTAL PROJECTS FOR LG&E AND KU**

*Company compliance plans are designed to meet pollution control requirements*

FRANKFORT, Ky. (June 20, 2005) – The Kentucky Public Service Commission (PSC) today approved 11 environmental improvement projects proposed by the Louisville Gas & Electric Co. (LG&E) and the Kentucky Utilities Co. (KU).

The projects are required in order for KU and LG&E to comply with new or revised government regulations, particularly U.S. Environmental Protection Agency (EPA) requirements to reduce air emissions from coal-fired power plants. The projects will reduce the companies' sulfur dioxide emissions by at least 110,000 tons per year.

In orders issued today, the PSC said the proposed projects are approved as a "reasonable and cost-effective" means of complying with environmental requirements.

LG&E estimates its seven projects will cost a total of about \$57 million. KU's four projects have an estimated cost of about \$760 million.

Under Kentucky law, the utilities are allowed to recover their environmental compliance costs for coal-fired generating facilities through a surcharge on electric bills. The impact on individual electric bills will depend on actual construction costs, interest rates and other factors.

The projects include:

- Construction of scrubbers – devices that remove sulfur dioxide from boiler exhaust – at KU's E.W. Brown plant in Mercer County and Ghent plant in Carroll County.
- Improvements to ash handling and storage facilities at KU's Brown and Ghent plants and at LG&E's Mill Creek and Cane Run plants in Jefferson County and Trimble plant in Trimble County.
- Improvements to scrubbers at LG&E's Cane Run and Trimble plants.
- Purchases of emission allowances by both LG&E and KU. Allowances are credits used as offsets against a company's emissions.

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In its order, the PSC noted that KU has been considering adding at least one scrubber at Ghent since 1996. But the company concluded that it was less expensive to burn low-sulfur coal and purchase allowances in order to meet emission requirements. New EPA rules – announced in December 2003 and finalized in March 2005 – require companies to achieve substantial further reductions in sulfur dioxide emissions and “tipped the scales definitively in favor” of scrubbers, the PSC said.

The Kentucky Office of Attorney General and the Kentucky Industrial Utility Customers, Inc., intervened in the cases. Neither opposed the projects proposed by LG&E and KU.

The new scrubbers at KU’s Brown and Ghent plants are the most expensive of the projects, with an estimated total cost of nearly \$660 million. Three scrubbers will be built at the Ghent plant, each serving a single generating unit. A single scrubber at the Brown plant will serve three units. When completed by 2009, they will reduce annual sulfur dioxide emissions by 110,000 tons.

Scrubbers enable a utility to use high-sulfur coal, which is generally less costly than low-sulfur coal. Electric utilities in Kentucky are required to pass on to consumers any savings that result from reductions in fuel costs.

The PSC modified or rejected three proposals made by LG&E and KU. The companies were allowed a return on equity of 10.5 percent, rather than 11 percent, as they had requested. They were ordered to exclude from their emission allowance inventories any allowances assigned to gas-fired generation. Any allowance trading between the utilities will have to reflect the cost of the allowances, rather than the market price.

LG&E has about 391,000 electric customers in and around the Louisville area. KU has 486,000 customers in 77 Kentucky counties. Both utilities are subsidiaries of LG&E Energy LLC.

Today’s orders and other documents in the cases are available on the PSC Web site, [psc.ky.gov](http://psc.ky.gov). The case numbers are 2004-00421 (LG&E) and 2004-00426 (KU).

The PSC is an agency within the Environmental and Public Protection Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in the Commonwealth of Kentucky and has approximately 110 employees.

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